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RUEHMD/AMEMBASSY MADRID 3483
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RUEHQT/AMEMBASSY QUITO 5140
RUEHSG/AMEMBASSY SANTIAGO 9737
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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)

SUBJECT: UNCERTAINTY STILL REIGNS IN BOLIVIA'S NATURAL GAS
SECTOR

REF: A. LA PAZ 870
[1](#)B. LA PAZ 559

Summary

[1](#)1. (SBU) The Bolivian Hydrocarbons Chamber told Emboffs May 18 that, while some smaller natural gas producers have agreed to invest in increased gas production, the largest players in the Bolivian industry are still waiting cautiously. Chaco has agreed to invest around USD 250 million over the next five years, but that figure only represents about 8 percent of the total investment needed to meet gas supply commitments to Brazil and Argentina. Sector representatives explained that legal uncertainty in the exploration business almost guarantees that no company will invest in exploration, with the exception of Venezuela's PDVSA for political reasons. Constituent Assembly proposals regarding hydrocarbons threaten the future of both exploitation and exploration. GOB negotiations to gain majority ownership of four hydrocarbons companies are ongoing. The Canadians are providing technical assistance to Bolivia's state oil company YPFB, which could help the state company in its management of the two gas refineries recently acquired (rather forcibly) from the Brazilian company Petrobras. End summary.

Company Gas Exploitation Plans in the Works

[1](#)2. (SBU) General Manager of the Bolivian Hydrocarbons Chamber Raul Kieffer told Emboffs on May 18 that the private gas production companies are preparing project and investment proposals, which are due to the government in November 2007. Kieffer predicted that we could see some investments in the

sector by May 2008. He said that investments could be delayed by new public consultation requirements for each step of a project, which could delay each step by six to eight months. He explained that there is a divide between the companies that have committed to investing in order to decrease their share of the undesirable domestic market and gain access to the more lucrative Argentine market (the smaller operators, including Chaco (partially U.S.-owned), Vintage (U.S.-owned), and Plus Petrol) versus the larger operators who were previously supplying Brazil and Argentina and plan to wait before making investment commitments, including Petrobras, Repsol, and Total.

But Few Investment Commitments to Date

13. (SBU) Chaco told Emboffs in a separate meeting May 18 that it has agreed to invest USD 50 million per year over the next 5 years, or approximately 8 percent of the USD 3 billion needed by Bolivia to meet its contractual commitments to Argentina and Brazil. Chaco is optimistic that the new pipeline to Argentina will be constructed because of Argentine and Chilean needs for fuel. Petrobras official Arturo Castanos confirmed that Petrobras does not intend to invest in Bolivia any more than necessary to maintain current operations. Castanos added that, contrary to Bolivian press reports, Brazilian petrochemical company Braskem, has not committed to investing USD 1.5 billion in Bolivia nor to building a plant in Bolivia. He explained that the company had expressed interest in buying 5 million cubic meters of ethane, if Bolivia could provide that amount.

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And Exploration Business is Dead

14. (SBU) Kieffer explained that during the congressional contract approval debacle (ref A), Podemos had won the argument that exploration contracts (as opposed to exploitation contracts) do not have to be approved by congress. This liberated former President and Podemos leader "Tuto" Quiroga from GOB legal charges that he had approved illegal exploration contracts, but means a lack of legal security for any company that may undertake exploration. Kieffer said that no company -- with the political exception of Venezuela's PDVSA which would receive special benefits under the bilateral cooperation agreement currently up for approval by the Bolivian congress -- would invest in exploration without knowing what the terms would be for exploitation, i.e. tax rates, once they discovered hydrocarbons. Chaco's vice president agreed that the exploration business has been ruined and that no company would enter except PDVSA. Kieffer expressed concern about Constituent Assembly proposals regarding the hydrocarbons sector. He said that if the proposals that he had seen become part of the new constitution, no private company would be able to operate in Bolivia in either exploration or exploitation.

Company Take-Over Negotiations Ongoing

15. (SBU) Kieffer said the GOB really intends to gain majority ownership of the four hydrocarbons companies that it pledged to take over in its May 2006 nationalization decree. According to Kieffer, the GOB is currently negotiating with the German-Peruvian owned Bolivian Hydrocarbons Logistics Company, but has not held recent meetings with Chaco (partially U.S. owned), Andina (Spanish-Argentine), or Transredes (partially U.S. owned). Chaco confirmed that it has not held discussions with the GOB, but said that reaching agreement with the GOB to purchase the required shares would

be possible as long as Chaco retained administrative and operating control over the company. On May 17, Transredes officials told Emboffs that they also had not held formal discussions with the GOB recently about the issue, and said that allowing Bolivia's state oil company YPFB to gain operating control of the Transredes was impossible. Raul Kieffer mused that the GOB would agree to cede operating control to the private companies, in order not to repeat its failures following nationalization of the Vinto smelter (ref B). Kieffer said the GOB would contract an international firm to evaluate the worth of the companies in the next three months.

Canadians Providing TA to YPFB

¶6. (SBU) Kieffer told Emboffs on May 18 that the Canadians are providing technical assistance to Bolivia's state oil company YPFB, in attempts to improve its currently extremely limited capacity to manage its new duties after "nationalization." Kieffer said that YPFB President Aruquipa is quite logical and learns quickly, but lacks the capacity to manage the organization. The GOB has proposed a bill to exempt YPFB staff and the workers from the previously Petrobras-owned refineries from the general GOB pay scheme,

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which would enable these state workers to earn competitive salaries.

Refinery Plans

¶7. (SBU) Petrobras official Arturo Castanos told Emboffs on May 14 that Petrobras made an offer to the GOB to sell its refineries for USD 112 million, because a decree issued by the GOB on May 6 had cut almost all of the refineries' profits and left Petrobras with no room to negotiate a partial sale. Regarding the GOB's announced plans to expand the refineries' production, Castanos said that the GOB would have to invest large sums to expand diesel production, but that such an investment did not make economic sense in Bolivia. Raul Kieffer estimated that the GOB would need to invest around USD 45 million to increase the capacity of the refineries, pipelines, and storage to be self-sufficient in diesel. (Note: This amount seems small compared to the USD 100 million the GOB spends annually on diesel imports. End note.) Chaco's vice president noted that, although the refineries represented only a small portion of Petrobras' global profits, they were the top-earning businesses in Bolivia in 2006. Castanos said that the refineries, if properly run, could generate USD 60 million per year if the price of fuel remained high.

Comment

¶8. (SBU) Although a few natural gas operators have committed to increasing investments, the large players in the Bolivian industry remain skittish. Future risks to the sector include YPFB's lack of capacity to fulfill its enlarged role, Constituent Assembly proposals that would hinder private operations, uncertainty in the exploration business that will lead to declining gas and oil reserves, and GOB plans to take over majority ownership of four production, storage, and transportation companies. End comment.
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